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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7096
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 0857
RUEHBJ/AMEMBASSY BEIJING 1697
RUEHKA/AMEMBASSY DHAKA 4737
RUEHNE/AMEMBASSY NEW DELHI 4417
RUEHUL/AMEMBASSY SEOUL 7948
RUEHKO/AMEMBASSY TOKYO 5509
RUEHCN/AMCONSUL CHENGDU 1322
RUEHCHI/AMCONSUL CHIANG MAI 1350
RUEHCI/AMCONSUL KOLKATA 0189
RUEAIIA/CIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/DIA WASHDC
RUEHGV/USMISSION GENEVA 3478
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 1297
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 03 RANGOON 000061

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STATE FOR EAP/MLS; INR/EAP; OES FOR JMIOTKE AND ACOVINGTON;
EAP FOR JYAMAMOTO; EEB FOR TSAEGER
PACOM FOR FPA;
TREASURY FOR OASIA:SCHUN

E.O. 12958: DECL: 09/21/2016
TAGS: [SENV](#) [ECON](#) [ETRD](#) [PGOV](#) [EINV](#) [BM](#)
SUBJECT: FINANCING THE REGIME WITH JADE, NOT GEMS

REF: A. 07 RANGOON 339
[1](#)B. RANGOON 46

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b and d)

[1](#)1. (C) Summary. State-owned Myanmar Economic Holdings Ltd. controls production at Burma's jade and gem mines, reaping the rewards from gem and jade sales at its annual emporiums. Contrary to popular belief, more than 90 percent of revenues from Burma's annual gem and jade emporiums come from the sale of jade rather than rubies and sapphires. In order to earn more profits, the Burmese Government has increased jade production, bringing regime cronies into the jade mining process. In the meantime, MEHL only allows 20 percent of gemstone mines in Mogok to produce gems, lowering production of rubies and sapphires in an effort to drive up the price. Most of Burma's stones are shipped to Thailand for polishing and cutting, where they resold as Thai gems. U.S. sanctions on Burmese gemstones do little to slow the trade, while jade sales continue to skyrocket. End Summary.

Burma's Buried Treasure

[1](#)2. (SBU) Known for its rich natural resources, Burma has a wealth of precious and semi-precious stones, including jade, rubies, sapphires, garnets, pearls, peridots, cats-eye, and topaz (Ref A). The majority of Burma's gem and jade mines are found in the north - either in Hpakan, Kachin State or in Mogok, Mandalay Division. State-owned enterprise Myanmar Economic Holdings Ltd (MEHL) controls the production of Burma's gem and jade mines (Ref B). Sales of gems and jades

at MEHL's annual emporiums, held four or five times a year, go directly to the regime. According to Business Information Group (BIG), the government earned more than \$300 million in profits from the emporiums in FY06/07, up from \$200 million in FY05/06. Profit estimates for FY07/08 are not yet available, although according to outside NGOs, the GOB reported earnings of approximately \$125 million from its 16th mid-year emporium in November. MEHL recently concluded another jade and gem auction on January 19, but will not release the official results. Gem industry insiders told us that, unlike in previous years, the GOB does not plan to report on FY07/08 gem and jade emporium sales. They estimate that MEHL will likely earn approximately \$300 million in overall profits.

Emphasis on Jade

13. (C) Nay Min Han, General Manager of MK Gems, informed us that more than 90 percent of the GOB's profits from the gem and jade emporiums come from sales of jade rather than gemstones. During the January emporium, MEHL auctioned more than 1,200 lots of jade, compared to 350 lots of precious stones. Nay Min Han estimated that Chinese merchants, who value Burmese jade because it is harder, more translucent, and more uniform in color than Chinese jade, purchase more than 95 percent of the jade lots. Chinese merchants are willing to pay top dollar for high-quality jade: one perfect two-carat stone is worth more than \$30,000. While there are no official estimates on how much jade Burmese mines produce annually, Nay Min Han told us that in 2007, MEHL asked companies mining in Hpakan to double their efforts and extract more jade.

13. (C) Business contacts have told us that several of the
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regime's favored cronies, including Tay Za, Zaw Zaw, and Aung Ko Win, are looking to invest in jade mines. Anwar Hussain (PROTECT) mentioned that Tay Za plans to develop several acres of jade mines in Hpakan in 2008-2009. Aung Ko Win, owner of Kanbawza Bank and Director of the Gem Merchants Association, already owns several ruby mines in Mogok and has petitioned the Ministry of Mines and MEHL for permits to mine jade in Kachin State.

Effort to Control Gem Prices

14. (C) In comparison to the busy jade mines, only 20 percent of the ruby and sapphire mines in Mogok are producing, Nay Min Han declared. MEHL, which previously allowed individuals to purchase a two-year permit to work in government mines, has not approved any new permits in the past two years. Only the mines controlled by companies with joint ventures with MEHL are in operation, Nay Min Han explained. The government is deliberately trying to lower the supply of Burmese rubies and sapphires in the market in an effort to manipulate the price. Demand for Burmese gems has increased in recent years; with fewer available, the government can charge a higher price, he explained. The current market value for a pigeon blood red Burmese ruby is \$12,000 a carat; sapphires sell for \$3,000 a carat.

15. (C) Nay Min Han explained that the Ministry of Mines determines the value of all precious and semi-precious stones found in Burma. Joint venture holders with MEHL (mostly Burmese companies but also some Chinese firms) are allowed to operate their mines between November and May (the dry season) and must turn over all stones found to the Ministry of Mines for appraisal. According to Nay Min Han, all high-quality stones (as determined by the Ministry) must be sold at the annual gem emporiums. Companies are allowed to keep and sell inferior and medium-quality stones on the local market, often to shops in Mandalay and Rangoon. As a result of this policy, only about 15 percent of stones found actually make

it to the emporium; the rest are sold domestically to tourists and Burmese nationals.

¶6. (C) Mining companies make their money from the sale of inferior and medium-quality stones, Nay Min Han explained. While each company's contract with MEHL is different, companies keep an average of 70 percent of the profits from sales of lesser quality stones. In comparison, many companies only receive 40 percent of revenues from high quality stones sold at the emporiums. MEHL sells most of the high quality stones during the July emporium, as the majority of gemstones become available after the mining season ends in May.

Little Impact of U.S. Gem Ban

¶7. (C) Despite U.S. efforts to ban Burmese gems, sales have not dwindled, Nay Min Han told us. While the number of stones exported to Thailand decreased slightly during FY06/07, more gems (both loose stones and jewelry) were sold in Burma to either locals or tourists. Although tourism has dropped by 50 percent this year compared to last year's levels, jewelry stores in Burma have not seen the same drop in sales. People look for quality stones at a fair price, and they are unconcerned about the stone's origin, Nay Min Han explained.

¶8. (SBU) It is nearly impossible to determine whether a

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ruby or sapphire is from Burma, he stated. While the internal structures of the stones are different, one would have to closely inspect the stone and conduct tests to determine its origins. Industry insiders estimate that 60-70 percent of Burma's rubies and sapphires are sold and brought to Thailand, where they are cut, polished, and sold as Thai stones. Thai gems, Nay Min Han explained, are cut and polished to eliminate all inclusions in the gems. A Burmese gem, cut in Burma, will be heavier in weight but will still have inclusions. Burmese buyers would rather have a bigger, less perfect stone because they can resell it overseas for more money, he noted.

Comment

¶9. (C) The GOB refuses to report its earnings from FY07/08 jade and gem emporiums, so we cannot determine what effect a ban on Burmese gemstones would have on their bottom line. But even if the Than Shwe regime earns less than \$300 million from the emporiums this coming year, the truth is that jade sales, not sales of rubies and other precious stones, are the real revenue-maker. Chinese merchants still flock to the annual auctions, willing and ready to pay top dollar for high-quality jade. If we want to get at one of the richest sources of the regime's finances, we should focus on the sale of jade, while recognizing that we may have less influence on the Chinese market.

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